

NORTHSHORE SCHOOL DISTRICT No. 417
King County, Washington
September 1, 1993 Through August 31, 1994

Schedule Of Findings

1. Internal Controls Over Cafeteria Cash Receipts Should Be Improved

Internal controls over cash receipts in the district's school lunch rooms need to be improved. During our audit, we observed procedures in effect that do not adequately safeguard district resources from potential errors or irregularities. Current procedures do not require cafeteria managers to count daily cash receipts at the end of the day, prepare a daily deposit, or make any other recording of cash received.

Cafeteria managers do prepare a daily meal count sheet that is transmitted to the food services office. The following day the cash is taken in locked bags, by courier, to the bank. At the bank another district employee counts the cash collected from all the school locations for that day. This employee is alone in a room at the bank to count and record the cash to be deposited.

Food services office personnel summarize the daily meal count information by school by day and estimate the sales receipts based on meal counts and prices. This estimate is compared to actual cash counted and recorded at the bank and a variance is computed. We noted that there were numerous variances every day. Only large variances are investigated to try to determine the reason for the variance.

Accordingly, there is no balancing of daily cash receipts other than comparing cash counted to an estimate of sales. The cafeteria managers and the employee performing cash counts at the bank are in a position to misappropriate money and not be detected.

Other weaknesses noted included recording daily meal counts in pencil, not depositing intact, not processing all sales through the cash register, and not retaining various source documents after the daily meal count had been prepared.

We recommend district officials consider the following:

- a. Require two people to be present to count daily cash receipts and prepare a deposit slip. This should also be balanced to cash register tapes and meal counts. This could also eliminate the need for the cash to be counted at the bank by a district employee.
- b. Require all cafeteria sales to be recorded through the cash register where possible. Cash register tapes would then provide confirmation of meal counts and cash received.
- c. Record all information on daily count sheets in ink and attach all original source documentation to support meal counts to the sheet.

2. Internal Controls At The Inglemoor High School Student Store Should Be Improved

During our audit of Northshore School District, we noted that the internal control procedures at the Inglemoor High School student store need to be improved. District officials expressed concern about the internal controls of the student store operation at Inglemoor High School. Preliminary audit work indicated the profitability of the store operations were not in line with expectations.

Subsequently, we reviewed the student store operations and noted numerous weaknesses in internal control procedures. These internal control weaknesses resulted in a potential revenue loss of \$17,965. This amount was based on estimates of gross profit margins on a sampling of items held for sale multiplied by an estimate of items sold.

Inventory Purchases at Retail	\$38,957
Estimated Markup Percentage	<u>1.639</u>
Expected Sales	63,850
Actual Cash Deposited	<u>45,885</u>
Estimated Shortfall	<u>\$17,965</u>

This amount is merely an estimate of the potential loss of funds at the store. We did not have information available for any reported thefts, merchandise sold at discount, or merchandise given away as incentives. Additionally, no adjustments were made for beginning or ending inventories which we believe were minimal. These adjustments would likely lower the estimate of the potential loss.

Because of the poor control procedures which existed at the student store, it is impossible to determine the actual amount of loss. It is also impossible to determine if the loss was due to inventory shrinkage, a loss of cash, or a combination.

The following weaknesses in the internal controls procedures were noted during our audit of student store operations.

- a. While the inventory of the student store was generally stored in a secure area, numerous persons had access to the key to this area.
- b. Three cash registers were in use, however, one was broken and continued to be used although sales could not be accurately recorded.
- c. Activity in the store during peak times was so hectic, it was impossible to determine if sales were being appropriately recorded.
- d. We could not readily trace daily sales with daily deposits for the period for which we performed transaction testing. This appeared to be due to inadequate filing procedures but may also have been the result of incomplete records. Other records were requested for review but could not be readily located.
- e. Daily balancing procedures were not being consistently followed by the students. We noted where cash registers were not totaled, daily balancing was done in pencil, cashier or verifier failed to sign the balancing sheet, and adequate explanation of overruns were not documented.

We recommend district officials improve internal control procedures at the student store,

including:

- a. Controlling access to the key and the inventory storage.
- b. Not allowing broken cash registers to be used.
- c. Consider methods to control the flow of students through the store cashiering area.
- d. Adhere to balancing procedures which would include reconciling daily sales revenue with deposits.
- e. Maintain records on discount sales, incentives, and inventory shrinkage so that store operations can be adequately assessed.